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JARMILA NOVOTNÁ

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ANALYSIS OF SELECTED BANKS IN THE
CZECH REPUBLIC IN THE LIGHT OF TERMS OF
OBTAINING CREDIT

(Bachelor Thesis)

Author: **Jarmila NOVOTNÁ**

Supervisor: **Ing. Martin SMUTEK**

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Jméno a příjmení: **Jarmila NOVOTNÁ**
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Cíl bakalářské práce:

Cílem bakalářské práce je analýza vybraných bank v ČR z hlediska podmínek pro získání úvěru. V úvodní části vypracujete teoretický základ. V dalších částech charakterizujte bankovní produkty zejména hypotéky, stavební spoření, spotřební úvěry, běžné účty. Analyzujte banky v ČR z hlediska úvěrů k financování pořízení nemovitosti. Srovnajte banky z hlediska podmínek pro získání úvěru. Analyzujte banky v ČR z hlediska spotřebních úvěrů. V poslední části určete strategii výběru bank. Bakalářskou práci obhájíte před Ústavem ekonomiky a řízení. Hodnocení bude součástí bakalářské práce. Práci podrobíte testu z plagiátorství a výsledek předložíte komisi pro státní závěrečnou zkoušku.

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1. Teoretický základ.
2. Charakteristika bankovních produktů.
3. Analýza bank v ČR z hlediska úvěrů k financování pořízení nemovitosti.
4. Srovnání bank z hlediska podmínek pro získání úvěru.
5. Analýza bank v ČR z hlediska spotřebních úvěrů.
6. Strategie výběru bank.

Závěr

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Vedoucí bakalářské práce:
Tutor bakalářské práce:
Datum zadání bakalářské práce:

Ing. Martin Smutek
Ing. Ladislav Obdržálek
Kunovice, 28. ledna 2011

Evropský polytechnický institut,
s. r. o.
Osvobození 699
688 04 KUNOVICE

-1-

doc. Ing. Jozef Strišš, CSc.
ředitel Ústavu ekonomiky a řízení

Oldřich Kratochvíl
H. prof., Ing., Ph.D., Dr.h.c., MBA
rektor

I declare that I have prepared my Bachelor Thesis by myself under the leadership of Ing. Martin Smutek and have stated in the Bibliography all used literary and expert sources.

Kunovice, 2012

I would like to thank Ing. Martin Smutek for the very useful methodological assistance, that he provided for me while I was preparing my Bachelor Thesis.

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INTRODUCTION

The aim of this Bachelor Thesis is an analysis of some selected banks in the CR in the light of terms of obtaining credit. In the introductory part the theoretical basis is explained and here are stated the basic concepts. In the next parts there are characterized the bank products, particularly mortgage loans and consumer credits. In the work there is also performed an analysis of banks in the CR in the view of the granting of mortgage loans. In addition to this in the work there is also made a comparison in the terms of the financing and the conditions for obtaining mortgage loans. In the thesis conclusion there is carried out an analysis of banks in the CR in the view of consumer credits and the bank selection strategy.

The banking sector in the the Czech Republic is very profitable, playing a significant role in the Czech Republic's economy's development. Since the accession of the CR to the European Union it is possible to see a certain trend of foreign banks penetration to the Czech market. Thus our banking sector has been intensively developing.

The world's financial crisis did not hit the banks in the CR so hard as the banks in other countries. Despite of that the crisis influenced strongly on people in this country. People have started saving more, to try to create financial reserves. Every citizen, who wants to ensure a better future for himself and also for his family, to solve his accommodation, his children's studies or to secure himself for pension, has to select the right saving product, which will bring him some income, but also the one that will secure his future needs.

Each client can value up his financial means in such a way, for example, that he deposits his money to a saving account. This account is offered by every bank, which is present on the Czech Republic's financial market.

Banking is a global branch, which is influenced all over the world by external factors mainly in smaller or economically developed countries. After the Czech Republic's accession to the European Union the banking has been governed under the EU actual policy and legislation. This one is quite freely regulated. There were adopted only 3 banking directives, however, the banking is influenced by many other EU measures or

regulations. The main objectives of all the directives is creation of the unified European Union banking market with liberal environment, enabling competition in the whole EU.

One of many definitions of banks describes the bank as a kind of financial intermediary, whose main activity is mediation of financial funds movement between the respective economic subjects. This intermediation is particularly based on the fact that the banks receive the deposits and from them they grant credits at their own expense.

The definition of a bank is guided by either a functional viewpoint (economic), or a legal one (by legal standards in the respective country). From the functional viewpoint a bank is defined as a financial institution, providing the financial services and intermediating the financial funds movement between the respective economic subjects. From the legal point of view a bank in the Czech Republic is defined by the Act No. 21/1992 Coll., of banks, stating that as a bank it is understood to be a legal entity, established as a joint stock company based in the Czech Republic and holding a licence to carry out its activity.

Among the most important financial intermediaries, providing the financial funds transfer between surplus and deficit subjects, there rank the banks. As banks there are the legal entities, receiving the deposits from the public and granting the loans and credits. Their aim is to maximize the profit or market price of stock, but they have also their specific features.

In general within their activities the banks utilize and concretize the function of money as a generally accepted asset in payment transactions for goods and services, money transfers and debt settlements.

As a contribution to this bachelor thesis there is a comparison of the respective banking products of the selected banks. It will serve as an aid for the individual people in selecting the banking services.

The first chapter deals with banking as such, where there will be explained the basic concepts of banking and also the banking history. The second chapter describes the respective banking products. In third chapter there will be analyzed the banks in terms of mortgage loans, where I will mention other kinds of financing the living, for example the credit from saving for building purposes. In the fourth chapter there are compared the respective banks in the light of mortgage loans. In the fifth chapter there are analysed

banks in terms of consumer credits. In the thesis conclusion there is described the strategic procedure and recommendation how to select correctly the banking services.

1 THEORETICAL BASIS

Banking belongs to the oldest branches of human activity. The first traces appeared already in ancient times. With gradual development of goods exchange and money creation there the banking was formed. The oldest evidence is made by the Bible, describing the expulsion of coins' exchangers.

Basis of banking were laid in Medieval Italy in 13th century, here was created the name "bank", in Italian language "il banco", literally meaning a bench, or a desk, which was a place, on which there were made transactions with money. As a banker it was considered a man, using the "banco" for the coins exchange, examination of their genuineness, weight and fineness in the times, when coins of precious metals served as a currency.

During the time the bankers moved from market places to stone shops and there appeared the monetary market instruments, i.e. various bonds, expressing a claim for delivery of the appropriate sum in precious metal coins.

První opravdovou bankou byla Vídeňská městská banka – Wienerstadt bank v Rakousku, která byla založena v roce 1706. Později byla v Praze otevřena pobočka této banky. V období velkého bankovního rozvoje v ČR byla u nás založena Živnostenská banka pro Čechy a Moravu. Na konci 19. století se začalo rozvíjet lidové peněžnictví a vznikali poštovní spořitelny, díky kterým se rozvinul poštovní systém. [13, p. 35]

After 1989 the commercial banks were founded. They contributed to the market economy development. Sudden and steep origin of many banks caused a lot of problems and some banks started to failure. For this reason the conditions for entry of new subjects to the banking sector were made stricker.

1.1 Basic concepts

The main goal of banks is to collect the temporarily free financial means. After that they make these means available in the form of a credit. By adding an interest they are up valued. Thus the money movement in economy is enabled.

Banks span a gap between the needs of creditors and debtors by performing a transformation function:

- a) transformation of size,
- b) transformation of maturity,
- c) transformation of risk [4, p. 109]

Bank goals are following:

- 1) active credits (granting loans)
- 2) passive account operation
- 3) payment cards issue (credit or debit cards)
- 4) money emission (only CNB)
- 5) non-cash payment system arrangement
- 6) deposit of valuables
- 7) exchange office activities
- 8) securities issue
- 9) stock exchange transactions
- 10) consultancy and mediating services

1.1.1 Bank, banking system and system

Banks are the institutions, accepting deposits and are also known as monetary financial institutions. [4, p. 187]

In the given country the banking system represents the summary of banks, situated in its territory. These banks have certain relations among them. Function of this system is

conditioned by economic environment in certain country, its traditions and involvement in international cooperation.

Banking systems are divided into one-stage and two-stage one, depending on the institutional separation of the central bank. Most of up-to-date banking systems is two-stage. It means that the central bank deals with macroeconomic functions and the

microeconomic ones belong to commercial banks, gaining profit for their work.

The countries, applying this principle, have at least two acts of law, regulating the rules in the banking sector, i.e. Act of financial institutions and the Act on CB.

After admission to the EU the Czech Republic's banking system observes the principles, which are contained by the EU regulations and which regulate the activity of banks and all the banking system. This system is based on the two-stage universal banking principle with the existence of certain specialized banks. [12, p. 122]

Merchant banks distinguish one from another by their characteristics and divide into universal and specialized banks. The universal banks may perform a big part of banking activities, but specialized banks concentrate only on some parts of banking market.

The central bank is the institution, standing on the top of the banking and which the government establishes it as a separate subject or authorizes the already existing institution with its function. Legal form of this institution is not important. In some countries the function of the central bank is fulfilled by a limited liability company, whose stocks are owned by various subjects. However, in the countries with the market economy there is significant its independence on the government in terms of meeting the monetary – political targets.

1.1.2 Merchant banks

The merchant banks are the most significant financial and entrepreneurial subject of the banking. Merchant bank (subject) is an intermediary of financial means of other subjects, which, on the basis of received deposits, realizes the credit and investment transactions at his own expense and risk. Thus the bank is a financial intermediary. Due to specific

conditions of banking activity the position and function of banks is stipulated under the Act No. 21/92 – The Act of Banks.

Bank is defined with conditions:

- legal entities with the registered office in CR (joint stock company)
- receive deposits (obligation)
- grant credits
- obtained a permission to operate as a bank (licence)

Bank (an entrepreneurial subject) is determined in its activity by economic – legal and regulatory restrictions, which are reflected into respecting the basic principles of the banking activity management in a certain environment (banking environment).

Financial intermediation is ensuring the financial flows in the form of financial instruments between economic subjects based on financial transactions, having the character of business.

1.1.3 Bank functions

Banks have a lot of functions. Basic function is the finance intermediation, this function is performed by banks for the purpose of making profit. They try to obtain free financial means through deposits and to place them effectively in the form of credits. [13, p. 51]

One of other functions is the emission of non-cash financial means in the form of entries to bank accounts. This function is carried out only by the central banks.

Banks perform the payment transactions, which is made in the form of transfer from one account to another account. Furthermore banks invest financially, it means that they issue securities for their clients, purchase them and trade with them.

1.1.4 The Czech National Bank

The CNB is the central bank of the Czech Republic, which is based in Prague. In its head there is the Bank Board. CNB influences the monetary policy in the CR and issues coins and banknotes. In addition to CNB administers the money circulation, settlement of banks

and supervises the banks' activities and the banking system development in the CR. CNB also performs trade and investment activities.

CNB is not dependant on the government, which ensures the price level stability. The bank has a very important role in the interest rate announcement.

1.1.5 CNB functions

CNB is the only bank in every country, which may issue the cash. It unifies the cash in the territory in question. Commercial banks execute up-to-date emission, they receive the cash from CNB by accepting a credit or by selling some assets.

The other banks may take on credits from CNB and deposit their deposits with it. CNB grants the other banks the credits, when they have problems with liquidity.

According to the law the most important function of CNB is considered to be a monetary policy. For this purpose CNB applies its monetary instruments, it influences with them the amount of money in circulation, interest rates and exchange rate.

CNB carries out the country's bank's function, providing the banking services for government bodies. Relations between CNB and the government are regulated by the law. Under the law the central bank may perform advisory functions for a bank, keeps accounts on budget rules, places the state bonds in sale, also keeps the securities records and at the request of the Ministry of Finance arranges e.g. transactions with investment instruments.

The central bank's goal is to regulate and supervise the amount of money in circulation. Such regulations are, for example, rules of the bank foundation, basic capital amount, rules of liquidity or the minimum reserve amount.

CNB collects statistic data on banks and provides collection, methodology and processing of ascertained data within the banking, monetary and financial statistics.

CNB issues the memorial coins, cares of the supply of all coins and banknotes, replace the damaged money for new one.

1.2 HISTORY OF BANKING

The first mention of banking comes from Egypt from the time before Christ. In Greece the banking originated as a separate profession. Coins were kept for a fee and were lent for interest. In Rome the banking developed more, there were used notes for precious metals.

Gradually the trading companies were founded. In England the commercial banking was established. Goldsmiths deposited gold and various valuables for people. After presenting a receipt and paying the fee for the gold deposit, people got their gold back. [3, p. 143]

At the beginning of 19th century the private exchangers were deemed to be the up-to-date banks in the Czech territory. They independently determined the credit value of the country and private entrepreneurs. They made everything on the basis of their assessments. Exchangers lent them money and charged a high interest for it.

In 1824 Česká spořitelna was founded. Several years later the new banks foundation broke out. But only banks having a strong capital survived the later depression.

In 1890 Zemská banka království Českého was established. It was a non-profit organization, which became the main bank of the credit system in the Czech territory. This institution provided the financial means for credits for railway workers or farmers. Building credits were granted by Hypoteční banka království Českého. Both banks gave only the long-term credits, the short-term ones were granted by loan banks, saving banks or credit cooperatives. [3, p. 106]

In the second half of 19th century the joint stock merchant banks developed. At first there were only the branches of Vienna's banks and during the time the Czech banks, for example, Česká průmyslová banka, Živnostenská banka were founded too.

Since the independent republic creation in 1918 there happened to various mergers of commercial banks. These banks provided their clients the short-term credits, discounted bills of exchange and securities, supported the government in its credit transactions, they were so called universal banks.

In 1918 the respective companies were domesticated. It means that the institutions, operating abroad, had to establish their branches in Czechoslovakia, too.

In Czechoslovakia apart from merchant banks the credits were granted also by the publicly owned institutions, institute of public banking, Poštovní spořitelna, Hypoteční banka.

In 1945 all the banks were nationalized. In the Czech territory there was preserved only Živnobanka, for short-term credits and Investiční banka for long-term credits. A new structure of financial sector was created, which was typical with its concentration and monopoly character.

After the merger of Poštovní spořitelna, Živnostenská banka and NBČ there was established Státní banka československá. It referred to a mono-bank, its task was to join all various functions of banking.

In addition to there existed Československá obchodní banka, providing the main foreign trade and granted credits within the foreign trade transactions.

As a speciality in Czechoslovakia there was Živnostenská banka and Investiční banka.

In 1990 thanks to the banking reform there was made two-stage banking. Commercial banks were divided in groups, to universal banks, performing the credit transactions and operations with CP and specialized banks, i.e. building saving companies, deposit or mortgage banks. [7, p. 54]

1.2.1 Czech banking development

The first money was commodity money. The goods were widely demanded still before the origin of their monetary function. Later the precious metals – silver and gold started to be used as payment means, in the form of castings, bullions and various objects. They served as a means of exchange in developed societies.

First metal money started in Eastern Asia in 5th and 4th century BC. As tender money it served only seldom and their price was determined by the alloy purity. First occurrence of banking transactions is recorded in Babylon in 1st millennium BC. Babylon was one of important centres in Mediterranean area. Fast banking development then started in ancient world, forming the basis of banking transactions.

The oldest metal money in Bohemia was “denars”, which were coined in first half of 10th century. They were reversible coins with original weight 1.33 grams and diameter of 20 millimetres. After mint reform they weighed over 1 gram and were about by a quarter lighter.

In first periods we can expect that every owner of monetary metal could mint the coins. The minted coins then came to monetary circulation by means of exchange of goods and service or also by paying taxes. Mintage then gradually became a privilege right of the government and it was due to the fact that there came to especially to depreciation of coins (wearing off, wear and tear).

1.2.2 Banking development in CR

In our territory the money started to have important role only after 11th century. In that period the first banking transaction began. In this field this country was some periphery. Until coming of Habsburgs on the Czech throne the banks in Bohemia almost did not exist. Later there were founded the branches of big European banks in Vienna, in Czech lands there were established only their detached workplaces, especially for service of financial needs of local aristocracy. In Czech lands in political sphere after coming of Habsburgs on the Czech throne (1526) the central issue became the antagonism between the Emperor and representatives of Czech estates society. Due to understandable reason the Emperor was interested in unification of currency conditions in all countries, where he reigned. Czech estates were against it and refused any changes of traditional Czech groschen system, because they felt to be co-responsible for the mint regalia. However, during the Czech estates uprising (1618-1620) they found support against Habsburgs with Protestant estates in Upper and Lower Austria and finally they were inspired in their mint order of June 1619 by Austrian groschen system. After the battle at White Mount (1620) the victorious Habsburg continued to this system and after 1624 even established in Czech mints the Vienna talent of 180 grams for silver weighing. Thus the traditional Czech currency basis declined, which had been the so called Prague talent – 253 grams since 1300.

In 17th and 18th century the bank's function was realized mostly by business firms, or also by private department stores, which were especially interested in exchange of currency, credits and drawing the bills of exchange. Classical banking services started arriving in

Czech lands only in 19th century by founding the Vienna banks' branches. The most important Czech bank became Živnostenská banka, which started operation in 1867 and this bank's main objective was financing the small industrial enterprises. Only after break-up of Austro – Hungary there started gradually independent Czech and Moravian banks, which mostly had limited territorial operation and were specialized in various ways in small retail clientele. There existed ca. 2000 banker's houses, but only over than 100 had the form of joint stock or other trading companies. In that time apart from banks more than 2000 small saving companies were developing.

1.2.3 Beginnings of banking

The era of creation of modern stock exchanges is connected with founding the Amsterdam stock exchange, which started to use techniques of modern business and stock exchange speculation, especially with development of new kinds of securities (stock and bonds). Due to market relationship development there are founded the significant stock exchanges such as Berlin stock exchange founded in 1739, New York (1792), Corn Exchange in London in 1745 and others. [3] Amsterdam was the centre of trade in North-West Europe, therefore in 1690 here was founded the first bank of modern type. 10 years later another bank was established in Hamburg and in 1694 one of the most important banks, the Bank of England, was founded, which till 1826 was the only joint stock company in Great Britain and in 1844 this bank became the national bank.

At the turn of 18th and 19th century there appeared new business activities of banks, for example, deposit operations and bill of exchange discounting, speculation in state bonds and issue of paper bank notes. At the beginning of 19th century there are established the banking firms, such as banker's house of Rothschilds or Baring.

In 20th century there are founded banks as joint stock companies, financial and banking law started to be created mainly to make transparency of banking operations and to determine the monetary policy rules and regulation. [37]

2 BANKING PRODUCTS CHARACTERISTICS

As banking products there are considered namely the banking services of banks, which are not of much material nature and are provided for consideration.

Banking products are distinguished according to their nature in balance. Thus we divide them into active products, i.e. a bank granting credits, it is a creditor.

Furthermore there are passive products, i.e. a bank is a debtor and raises capital.

The last classification refers to neutral products, for example a bank provides guarantee, these transactions are shown in a sub-balance thus out of the balance.[6, p. 87]

Now on our market there operate a lot of various banking organizations, granting their clients a wide portfolio of services, which are still extended and changed. Thus it is not possible to determine certain characteristics of banking products, we can only specify them according to their marked common features, which are of material or non-material nature of the product, dualism, connection and conditional character of the respective products. [12, p. 135]

Non-material nature of the product shows that the bank's products cannot be stored, thus to store them in stock. They have only abstract character and it is not possible to take out a patent of them, these products are not visible, so they require a quality advertisement.

Dualism of banking products means a mutual connection of factual and value sides of the products. The value side of the product represents a financial volume, e.g. a volume of the credit, deposit, bank transfer. As compared to that a factual side means the number of respective products, for example the number of credit cases or deposits.

Connection and conditional character of banking products means that one given product could not operate on the banking market if the other product would not exist. This information is important for the bank, when it creates the services portfolio and in determining the product prices or various product packages. In case of the objective connection the non-cash payment system cannot be made without keeping the accounts. We realize the intentional connection of products as automatic transfer of money from a current account to fixed-term deposit account in case of exceeding the agreed balance of the current account. [8, p. 24]

2.1 Banking products systemization

We divide the banking products into classical and modern.

Classical classification is distinguished according to the bank's balance into:

- a) Active transactions, which are included in the bank's assets, within these transactions the bank is a creditor. Certain receivable arising in favour of the bank, for example in granting the credits or the proprietary rights in purchasing the property securities [8, p. 20]
- b) Passive transactions are included in the bank's liabilities. The bank is a debtor, for example, receipt of deposits, issue of own bonds. As a part of liabilities there is also the own capital of the bank, therefore here are classified also the transactions, related to the own capital.
- c) Neutral transactions are not contained in the bank's balance. Sometimes there are in a sub-balance, for example as future receivables, i.e. guarantees, letters of credits.

Modern classification is divided according to function for the bank's client.

Here we distinguish:

- a) financial credit products
- b) deposit products
- c) payment clearing products
- d) investment banking products
- e) cash and currency exchange products

Banks also divide products into:

- a) retail products, products, it means small amounts, many transactions
- b) wholesale products, it means big amounts, having individual character.

2.2 Credit products composition

The most important products, performed by a commercial bank, are granting a credit and other financing. It means lending the financial means (capital), client manages by himself these means, later he returns the funds and pays the credit interest. [9, p. 248]

A lot of various credit classifications exist, to the basic ones there belong: [10, p. 55]

a) according to the date of maturity

We distinguish the dates of maturity as short-term ones, i.e. till one year, medium-term, having maturity till five years and long-term, whose maturity is longer than 5 years.

b) according to the debtor

This criterion helps to assess the credit risk rate. We classify the debtors as public, i.e. the government, inter-banking, municipal, consumer and commercial.

c) according to the currency

According to the currency we distinguish the products into Czech crown and foreign currency, these have also political, currency risks.

d) according to the registered office

From this point of view we divide the credit products into foreign and domestic ones.

e) according to the object

Here it depends on the purpose of use of the credit. Thus we classify the products as purpose and non-purpose.

f) according to the collateral

According to the collateral point of view we distinguish the products as secured and non-secured. The secured products are less risky.

g) according to the kind of banking service

Here we divide the products into cash, i.e. consumer and commercial and obligation and guarantee.

h) according to the credit method

Here it depends on the fact if the credits are granted as a single-lump sum, are drawn variably or are granted in separate amounts, so called revolving. [10, p. 58]

2.3 Financial credit products

As to be financial credit products we consider:

1. Financial borrowings

Among these borrowings there exist the loans for operation purpose and investments credits, discount credits, overdraft agreements, consumer and mortgage credits.

2. Obligation credits and guarantees

Here belong credits with aval, bank guarantee and acceptance credit.

3. Alternative forms of financing

These forms are non-mandatory, for example factoring, forfaiting.

2.4 Commercial credits

Commercial credits are numerically the most significant credit transactions of the banks. Bank is contributed with big yields, the credits are dynamic, but they are accompanied with a certain risk. They are related to entrepreneurial, legal, political and macroeconomic risk.

According to the kind of financed property the commercial credits are divided in loans for operations, serving to floating capital and investment credits, determined for fixed assets.

The company pays its common operation, material purchase, production and also subsequent sale of products from the loan for operations. Bank evaluates if the client has a claim for a credit. Because the company could use its capital for acquisition of property and at the moment it does not have means for common activity. The reason can also be that the company is indebted and fails to repay its liabilities. Bank decides if the company will be granted with a credit and if it will be able to repay it. [17, p. 112]

If the bank considers that the given subject has a claim for a credit, a separate financing of operation is made, here are purposefully credited kinds of floating capital, or the running financing of operation is carried out. [10, p. 58] Here is expected that the production process is repeated and fluent. Companies choose if they use the revolving or overdraft agreement credits.

2.4.1 Investment credit

These credits form a separate group of banking credits. They are special ones, thus they have a determined drawing plan and then repayment. Investment property should be financed with this credit.

2.4.2 Overdraft agreement credit

This credit is running. The balance at the account may pass to minus values. Here is fixed so called credit limit, which is the maximum credit amount. In most cases it is permitted a short-term exceeding the credit limit, but it leads to additional penal interests.

The overdraft agreement credit is granted with the client's overdraft account, thus if the expenses are higher than the income. Maximum debit income is determined by so called credit limit, which is elaborated individually to every client.

Client draws the credit continuously up to the determined limit amount, according to his own need. Interest is calculated only from the actual state. However the overdraft agreement credit disadvantage is a high interest rate.

The credit maturity is a short-term. Contract is entered mostly for 1 year, for a good client the contract is renewed every year. It may have a medium or long term character.

Costs arising from this credit are in the form of interests, account management charges, payments effecting and as the costs there are considered to be all cost items, included in one net rate. [8, p.24]

On the other hand a high interest rate represents one of advantages for the bank. As an advantage can be considered to use the settlings i.e. that a part of deposit remain to the bank for its disposal.

Disadvantage for the bank is non-use of credit sources, if the credit is not drawn and from this credit there arise higher requirements for liquidity management.

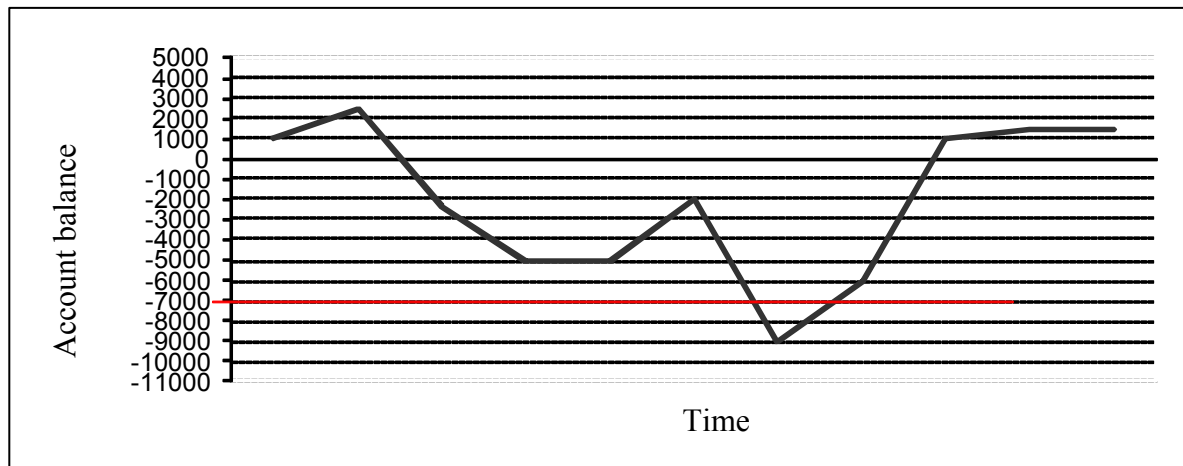


Chart No. 1: Overdraft agreement credit

Source: [19]

Red colour line represents the credit limit, which was granted to the client. The area under the line means the credit overdraft.

The overdraft agreement credit price will be calculated by adding up all the interests and other items, participating in the account management. For example, the obligation commission, covering the costs of credit limit keeping, then the turnover commission, represented by the cost, related to the account management and penal fee for failure to observe of credit limit.

Such a credit is advantageous for the client, because he can draw a credit and then to repay it according to his needs. The opposite thing is, however, high interests.

High interest rate is profitable for the bank. According to the balance states in the client's account we can find his financial situation. Risks are only in possible remaining credit.

2.4.3 Specific credit

In granting the specific loan the banks wants to know, what purpose the credit will be used for. The bank must be certain that the credit will be used for determined needs.

For example, the credit is used for stocks. Here is credited according to the state, i.e. if the turnover method is necessary or is used, which is the running financing.

As a specific loan it is considered to be a credit granted for receivables. This loan covers the period, when the goods is sold and it is waiting for its payment. Bank is transferred with receivables.

2.4.4 Bills of exchange

Bills of exchange have two forms, promissory notes and foreign bills of exchange.

The promissory note, so called the solo bill means that was drawn by a debtor.

The foreign bill of exchange, so called draft, is very frequent in practice. It is drawn by a creditor and the debtor is obligated only after acceptance i.e. acceptance with signature.

We distinguish the bills of exchange in commercial drafts, related to a supplier credit and finance bills, related to financial transactions, not to movement of goods or services.

The foreign bill of exchange has to contain prescribed formalities, it has to be identified clearly that it refers to a bill, in addition to there has to be stated the amount, maturity and who has to pay whether the drawee or the drawer.

It has to contain the place, where it shall be paid, who is to be paid to, the bill holder or the payee, signature of the drawer and date and place of issue of the bill.

Bills may be endorsed from one subject to another, i.e. endorsement.

The bill advantage is its joint guarantee liability of persons obligated to the bill i.e. that everybody, who endorses a bill by endorsement, guarantees in full to the bill owner.

Positive feature is also the definitive character of the receivable, summary court proceedings and a simple transferability of a receivable based on the bill. [8, p. 20]

2.4.5 Discount credit

Discount credit is granted by a bank by purchase, i.e. by discount, bill before its due date.

Bank will leave the bill or re-discounts it further. Bank deducts the discount, thus the interest, for the period from discount to the due date. The credit is not paid up by the receiver, but the drawee, or the person who paid the bill.

Cost of the bill are interests, discount commission, related fees and charges and also net terms, summarizing the discount interests and commission.

2.4.6 Mortgage loan

This credit is secured by mortgage right in real estate. Its maturity is 5 – 20 years. Mostly it is paid up by annual annuities. For the bank the so called mortgage bonds is the source.

Interest rate is fixed for the entire due date period, however, it may be floating, depending on the market interest rates fluctuations. Very frequent is a combination of both forms, i.e. for several years the interest rate is fixed and then again floating. [33]

2.4.7 Consumer credit

Consumer credits distinguish themselves from commercial ones. The commercial credits are paid by cash flow from the credit object. On the other hand in case of the consumer credit the credited object does not generate the repayment sources, it is paid up from the client's income.

Consumer credits have less quality ground information in the application for a credit than in the case of firms and the credit amount is lower.

We distinguish several consumer credit types:

1. Revolving

These credits function as an overdraft account. Mostly they are credit cards. Credit limit is determined according to the client's net income. In order to obtain this credit type the client has to meet several conditions. He has to dispose a stable income, he must have the already opened account and, of course, he has to be trustworthy.

2. Instalment consumer credits

They are usually in the form of a monthly instalment they are special and relate to consumer durables.

Direct instalment credit function between the bank and the client. The indirect one means that the seller, selling the goods to the client, mediates at the same time also granting the credit.

3. Mortgage loan

Here apply the same conditions as in the case of a commercial credit.

4. Others, thus the non-instalment credits are paid at the same time. Usually they are bridging, lump ones, for example, sale and purchase of a flat.

2.4.8 Acceptation credit

Within this credit type the buyer pays for the goods delivery with a bill of exchange, which is accepted by the bank and it charges the acceptance commission.

Acceptance credit has several advantages as compared to a normal bill of exchange. The seller ensures a timely and proper payment of the bill, it is possible to use it also in foreign trade. Bills are accepted by first class banks and are quality precious securities on the money market.

For the buyer the credit is granted in the period between the bill acceptance by the bank and depositing the buyer's money with the bank.

2.4.9 Aval credit

It is very similar to the acceptance credit, has two variants. The first one is so called the aval of the bill. This is the bank with the bill of exchange clause "per aval", securing for one of several bill debtors.

The other variant is the aval credit in the form of guarantee. Thus the bank undertakes to pay the obligation for the client if he does not pay by himself.

2.5 Making use of credit

Banks grant banking credits according to several methods, which are divided according to various aspects.

The first of a series of methods can be introduced by making use of credit. This method is carried out in a single way or gradually. In case of a single way of credit drawing the client is granted with the full amount as a lump-sum. In gradual giving the credit the client draws the credit in small amounts, for example, he uses it for reconstruction, building, etc.

We also distinguish the security method of the credit purpose. Security may be conditional, i.e. that the credit purpose must meet the conditions, agreed in the credit contract. On the other hand the unconditional security means the credit drawing mainly from the overdraft account. [8, p. 20]

In the credit drawing it is important the so called maturity date. The life of the credit may be determined with a certain period. In this case there is determined the firm period, until the funds have to be returned to the bank.

In case of credits with indefinite period the maturity date is not clearly stipulated. Credit is paid up at the request or after expiration of some period agreed beforehand. [8, p. 58]

2.6 Credit interest calculation

Interest represents the amount, which has to be paid to the creditor by the debtor for the services provided, thus in this case for lending the funds. Interest is the so called price of money. It is calculated from the amount outstanding by means of percentage. For creditor the interest means some remuneration for giving his money to another subject, for his interests and needs.

Interest rate is distinguished, according to operations performed by the bank.

- a) **Active interest rate** represents the bank's proceeds, obtained from its credit operations and various investments in securities.

These interests have the structure composed from significant components:

- bank's operating cost, this component is considered as to be stable,
- risk surcharges, their amount reflects in the banking business duration, its nature, it depends on the debtor's reputation and his quality,
- profit margins, they have flexible character,
- passive interest payable. [10, p. 58]

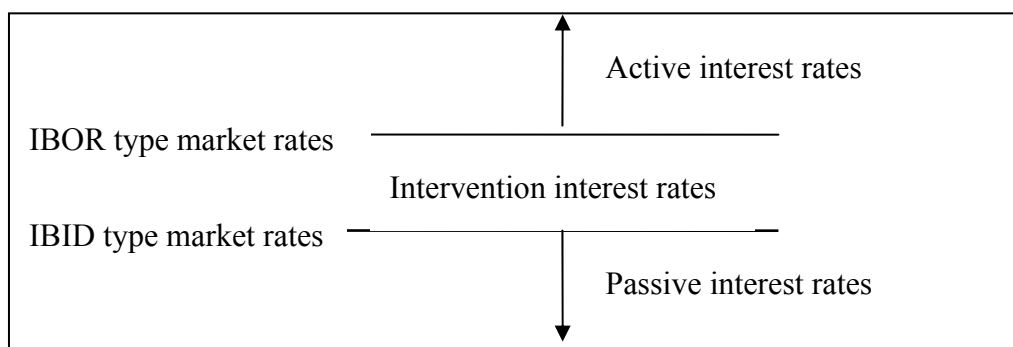


Fig. No. 1: Interest rate structure on financial markets
Source: [10]

- b) ***Passive interest rate*** is the cost for a bank. This cost originates from deposits and operations, related to issue of securities.

Interest margin makes difference between active and passive interest rates. For the bank this margin is a very significant source, which is used by the bank for covering its operating cost, further for the reserve creation and also profit formation.

Interest rates characterize the credit relation of the bank - the client. In the credit contract the rate is stipulated as fixed, thus fixed for the whole period of the credit life or is floating.

The floating interest rate is furthermore distinguished into:

- Variable rate

Variable rate is fixation, related to the market reference interest rate.

- Floating rate

Floating rate is fixation to the given interest rate.

- If there happened to more significant changes on the interest rate market, the bank has the right to adapt the interest rate. [6, p. 87]

Determination of the interest rate amount is dependent on many factors. Among the important ones there belong:

- interbank interest rates
- bank strategy, which is managed according to the determined interest margin
- risk of the loan, the bigger risk, the higher interest rates
- intervention interest rate, for example, the CNB rates
- loan due date
- the government's monetary policy.

3 ANALYSIS OF BANKS IN CR IN TERMS OF CREDITS FOR FINANCING THE REAL ESTATE

Financing the real estate is possible especially through a mortgage loan or saving for building purposes credit. It depends on client's possibilities. Every financing method has its advantage and disadvantage.

3.1 Mortgage loans

In the Czech Republic there is relatively a strong competition between banks, granting the mortgage loans. In this country the mortgage loans are given particularly by these banks: Komerční banka, Česká spořitelna and Hypoteční banka. The biggest credit volume is granted by Hypoteční banka.

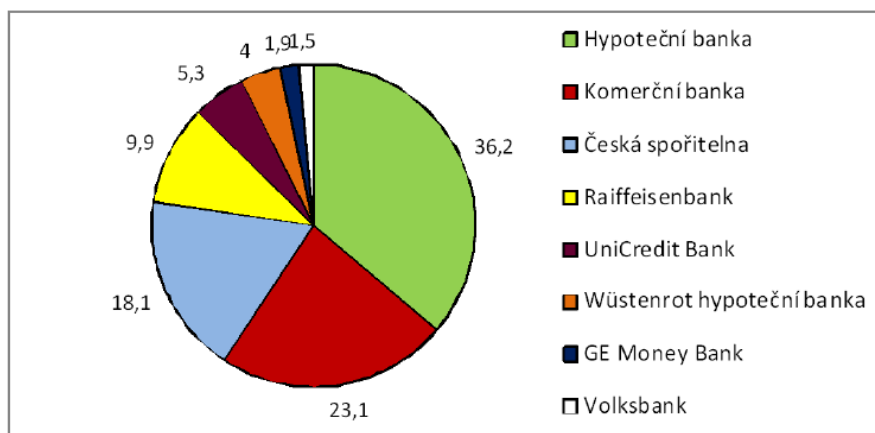


Chart No. 2: Market share of mortgage banks on the Czech market
Source: [18]

Last year due to economic crisis there came to significant slump on the mortgage market. Mortgage loan volume decreased up to a half and the interest rates increased fast. Real estate prices significantly fell down, this caused the mortgage loan volume decrease.

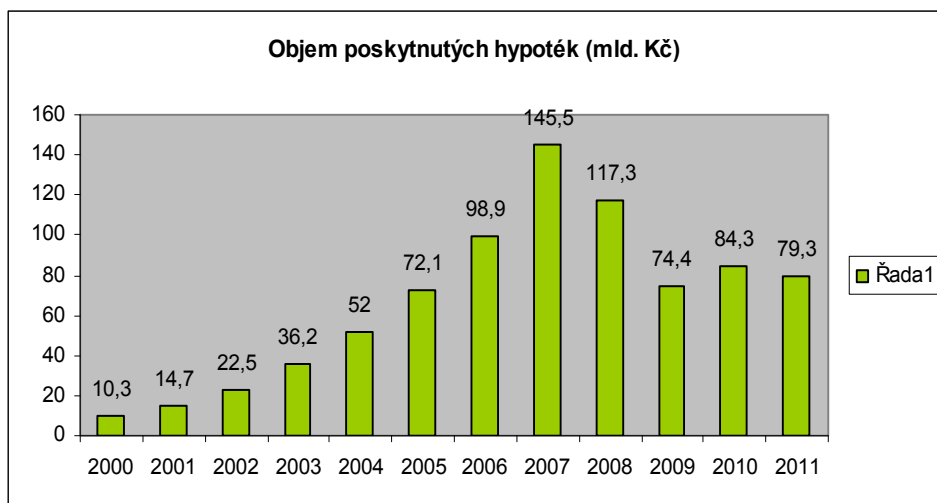


Chart No. 3: Volume of negotiated credits
Source: [33]

Decrease of demand for credits is caused especially by increasing unemployment. People do not want to get into debts. Banks increased their interest rates, to lower the existing risk of clients' insolvency. Due to unemployment there also fell down the real estate prices, because people had lower interest in privately owned flats.

Further development of mortgage market will depend on the economy performance, inflation, price of money and a lot of other factors, influencing on the economy. But the most influential will be the unemployment.

From the data, provided by the Czech Statistical Office, it is obvious that last year the unemployment rate started to decrease relatively slowly. However there function other factors, such as seasonal character. It means that in a certain season period the unemployment rate will increase and then decrease. The Czech economy slowly recovers from the financial crisis and starts growing, which will cause a slight fall of interest rate with mortgage banks.

Česká spořitelna, a.s.
Československá obchodní banka, a. s.
GE Money Bank, a.s.
Hypoteční banka, a.s.
ING Bank N.V.
Komerční banka, a.s.
LBBW Bank CZ a.s.
Oberbank AG pobočka Česká republika
Poštovní spořitelna (součást ČSOB, a. s.)
Raiffeisenbank a.s.
UniCredit Bank Czech Republic, a.s.
Volksbank CZ, a.s.
Waldviertler Sparkasse von 1842 AG
Wüstenrot hypoteční banka a.s.

Table No. 1: List of banks granting the mortgage loans in the Czech Republic
Source: [33]

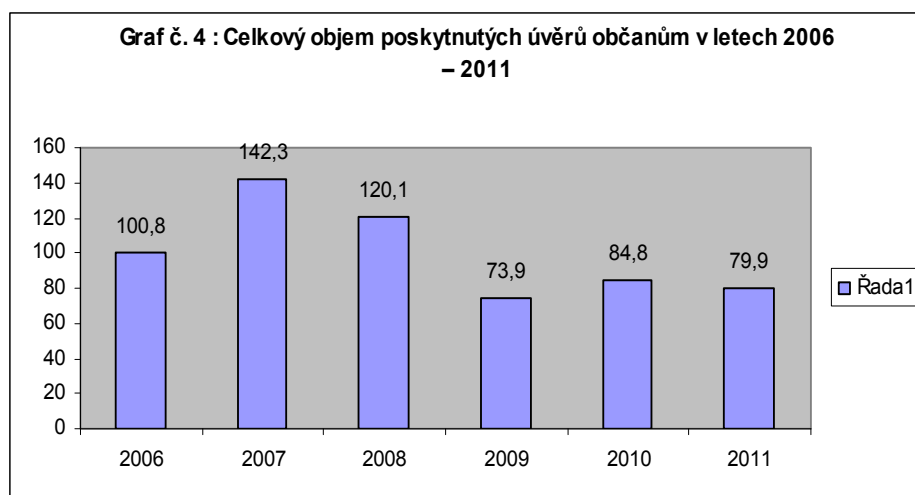


Chart No. 4 : Total volume of granted loans to people in years 2006 – 2011
Source: [34]

Last year Hypoteční banka granted the mortgage loans in total volume exceeding 27 billion CZK. Its market share exceeds 32 %. Almost every third mortgage loan was entered with Hypoteční banka.

Mostly the mortgage loans were concluded with fixing the interest rate for five years, almost 60 % of total number of the entered credits.

In 2011 Komerční banka increased its volume of granted mortgage loans by 8.4 %. UniCredit Bank rose the number of mortgage loans by more than 48 %.

Company LBBW Bank almost doubled its mortgage loan portfolio. It decreased significantly its interests. So the granted mortgage loans increased almost by 121 %. The most of them was concluded in Prague.

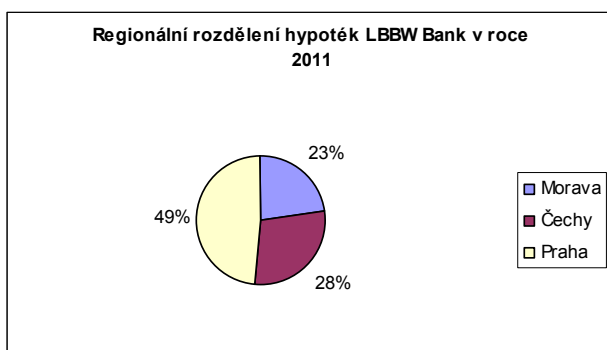


Chart No. 5: Regional distribution of mortgage loans with LBBW Bank in 2011
Source: [23]

3.2 Credit from saving for building purposes

Saving for building purposes is one of the most favourable and also most reliable ways how to revalue the own money, offering the most interesting combination of return rate and possibility of safe deposited money.

It is still an attractive product, offering a higher return than saving accounts and time deposits. Saving for building purposes is intended for everybody without difference in age.

Last year in total the building and loan associations made roughly 685 000 contracts including the final amount increase, in the year before last it was over 906 000. All five domestic building and loan associations concluded a lower number of new contracts.

Building and loan association	Credit volume (in mil. CZK)	Inter-annual change	Total of contracts (in thousands)
ČMSS	27 019	-0.50%	1 920
SSČS	4 250	-25%	1 096
Modrá pyramida	7 785	-14%	718
Raiffeisen	6 532	-38%	756
Wüstenrot	2 470	-58%	455
CELKEM	48 056	-17.50%	4 945

Table No. 2: Saving for building purposes in 2011
Source: [38]

The highest credit volume was achieved by Českomoravská stavební spořitelna. As compared to last years the number of credits decreased. Due to financial crisis people prefer to save than to run into debt.

4 COMPARISON OF BANKS IN THE LIGHT OF TERMS OF OBTAINING THE CREDITS

In this chapter I am comparing the banks, granting the mortgage loans. I am comparing the five best known banks in the CR. Each bank has its own table, where you can see the mortgage loans development during the last six years.

4.1 Česká spořitelna

Name	Česká spořitelna a. s.
Registered office	Olbrachtova 1 929/62, 140 00 Prague 4
Registration in CR	30. 12. 1991
Registered capital	15 200 000 000.- CZK
Bank code	0800

Česká spořitelna orientates especially to small clients, small and medium organizations. It finances also big corporations and provides them with various financial services. With number of clients this banks ranks to the first place on the market. Česká spořitelna issued more than 3.5 million of payment cards, has more than 662 branches and also owns more than 1000 cash machines over the ČR. Česká spořitelna also ranks among the leading securities traders.

In 2000 Česká spořitelna became a member of the so called Erste Group, which is considered as the main provider of financial services in Europe. In 2009 Česká spořitelna was even awarded by the title the Bank of the Year, it was chosen as the most trustworthy bank by the public.

4.1.1 Mortgage loans with ČS

During the year the mortgage loans for natural persons rose by ca. 1 %. However the sale of credits was influenced by a low activity on the real estate market. In 2011 Česká spořitelna granted the mortgage loans with average credit maturity of 23 years and average amount of the granted credit, remaining on its stable value of 1.6 bil. CZK.

Average credit maturity with Česká spořitelna is about 21 years, the so called residual maturity period is 17 years and average credit value/real estate value is 65 %. [28]

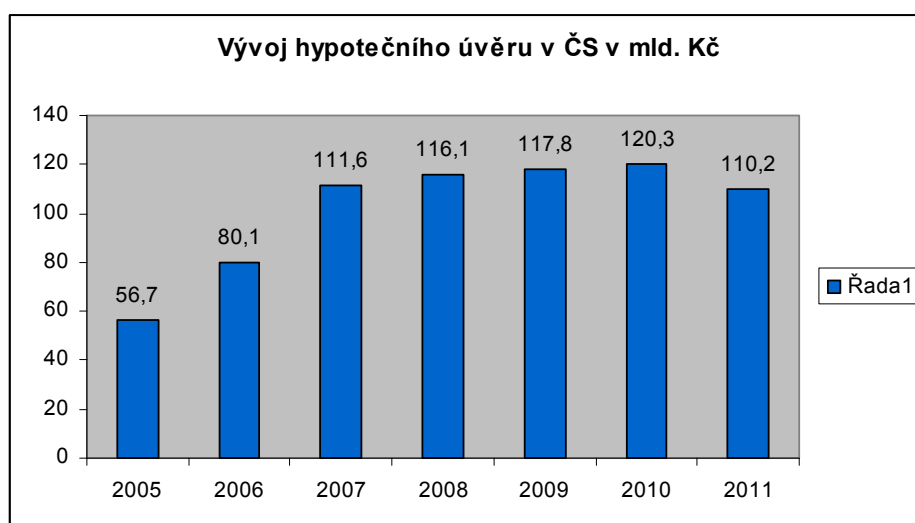


Chart No. 7: Mortgage loans development with ČS in billion CZK
Source: [27]

Mortgage loan with Česká spořitelna is intended particularly for natural persons for financing the real estate for accommodation.

Mortgage loan can be obtained without handling fee up to 100 % of the value of the pledged real estate. With Česká spořitelna it is possible to use on-line services, thanks to that it is possible to assess the real estate free of charge. Client has a possibility to repay a mortgage loan according to his own needs, he can change the instalment amounts during the credit life, he can also use a deferment or termination of repayment. Česká spořitelna offers interest advantage of 0.3 % and its unique guarantee for the whole payment period. [29]

Česká spořitelna offers the following mortgage loans:

a) Mortgage loan on accommodation

ČS grants this mortgage loan up to 90 % of the pledged real estate value. The real estate value was determined by the bank based on expert opinion.

The mortgage loan amount is unlimited, maturity is up to 30 years. With this mortgage loan the fixed interest rate is for 1 – 5 years, 10, 15 or 20 years.

b) American mortgage loan

This mortgage loan is intended for private clients, thus the natural persons over 18 years. American mortgage loan is a credit, secured by right of real property lien intended for financing the goods and services, settlement of joint property of spouses in divorce proceedings, purchase of a cooperative flat or a flat from the town municipality or municipality also without pledge for another real estate, settlement of obligation between citizens in transfer of right of use of a cooperative flat or for remuneration of notarial and court fees. [27]

Maximum credit maturity is 20 years and minimum credit amount is 150 ths. CZK. Advantage of this mortgage loan is the guaranteed interest rate amount. This rate is fixed for the whole credit maturity. Client has a possibility of use the extraordinary instalments without penalty.

c) Investment mortgage loan

This mortgage loan is intended for natural persons for real estate financing, however, this real property is not determined for accommodation. For example, it is the real estate, having the business premises, block of flats, accommodation or catering premises.

Mortgage loan can be used for the real estate purchase, financing the construction and adaptation of a real property or for paying the credits for real estate granted before.

Mortgage investment loan can provide up to 90 % of the value of the pledged real estate, determined by the bank based on the expert opinion. Minimum or maximum credit amount is not stipulated.

Advantage of a mortgage loan is a possibility to set off to existing income of the client the future rental revenue of the acquired real estate, but also immediate acquisition of the real estate in present prices.

Credit type	Interest rate for new transactions from
Mortgage for accommodation	minimum interest rate
Fixed interest rate for 1 year	4. 59 %
Fixed interest rate for 2 years	4., 59 %
Fixed interest rate for 3 years	3. 79 %
Fixed interest rate for 4 years	3. 79 %
Fixed interest rate for 5 years	3. 79%
Fixed interest rate for 10 years	4. 99 %
Fixed interest rate for 15 years	individually

Table No. 3: Interest rates of mortgage loans with Česká spořitelna
Source: [19]

Minimum interest rates are given with repayment discount of active Personal account of Česká spořitelna, arranged insurance of repayment ability with PČS involving death risk permanent disability, disablement and loss of employment and in case of fixing for 5 years with the interest preference discount.

4.2 Komerční banka

Name	Komerční banka, a. s.
Registered office	Na Příkopě 33, 114 07 Prague
Registration in CR	5. 3. 1992
Registered capital	19 005 000 000.- CZK
Bank code	0100

Komerční banka is considered to be a universal bank, providing a wide offer of services within the entrepreneurial and investment banking. It also offers various special services, for example the pension insurance, saving for building, consumer credits and insurance.

Komerční banka is a member of the Société Générale Group, forming the biggest banking group in Eurozone. KB provides financial services not only for natural persons, but also to small businessmen.

4.2.1 Mortgage loans with KB

Mortgage loan with Komerční banka is intended especially for the Czech Republic citizens, but also for foreigners with permanent residence in the Czech Republic, citizens of EU member states, if they have a residence permit.

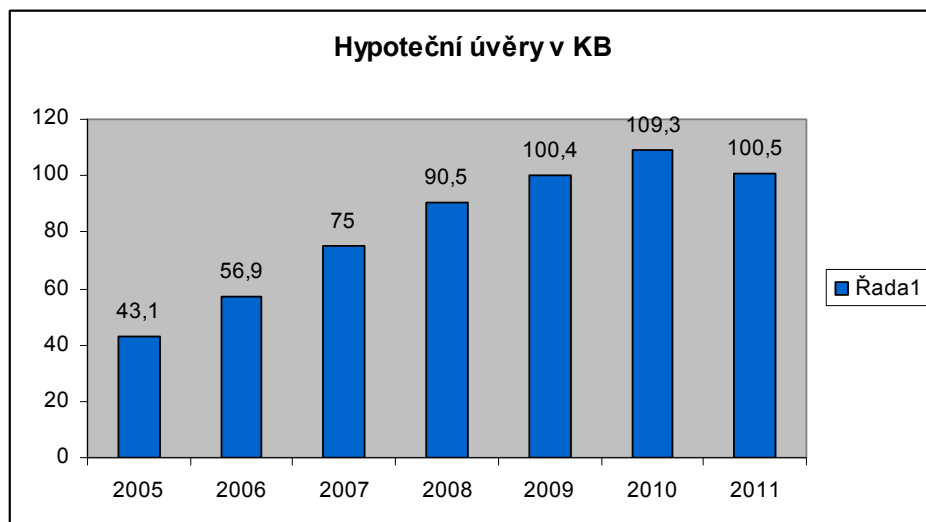


Chart No. 9: Mortgage loans with KB
Source: [22]

In case of spouses one of them has to be a citizen of CR or must have a residence permit or permanent residence permit. As applicants for the mortgage credit may be up to 4 persons, who form maximally 2 households.

Minimum credit amount is 200 000 CZK, maximum amount is limited to 85 % or 100 % from the price of the pledged real estate, the price is determined by the bank. Maximum amount is also limited by the investment volume in the real estate and client's repayment ability.

Credit may be drawn as a lump-sum or gradually for 2 years from signing the contract. But credit drawing must be started at the latest in 9 months after signing the credit contract.

Credit is repaid monthly till its full exhaust by means of annuities. Maturity period is determined for 5 to 30 years. In case of mortgage loan it is applied the fixed interest rate, i.e. 1 year to 10 years, 15 years from signing the credit contract.

Condition for obtaining the credit is the CZK current account with Komerční banka for natural persons, which is maintained for the whole period of the transaction duration. Credit also has to be secured by the real property right of lien in real estate, which must be insured and the insurance premium has to be tied up in favour of Komerční banka.

Advantage of the mortgage loan with Komerční banka is deduction of paid interests from the tax basis, state subsidy, partial or full repayment of the credit without penalty. Client also has a possibility to decrease the interest rate, if he enters life insurance of Komerční pojišťovna, a. s.

Komerční banka offers these mortgage loans: [22]

a) Flexible mortgage loan

It is intended for everybody, who wants to decide on the instalment amounts of the credit. It is for CR citizens, foreigners with permanent residence in CR, EU member state citizens.

During the repayment the KB client has a possibility to decrease the instalments by 50 % or use the extraordinary instalments up to 20 % of the credit. He also can defer the start of repayment by up to 12 months. Client has also a possibility to interrupt repayment for the period of 3 months. He may repeatedly decrease or increase the instalments or interrupt them. However firstly he has to properly pay 12 consequential monthly instalments.

Minimum credit amount is 200 000 CZK and maximum amount is limited to 85 % or 100 % of the pledged real estate price, further it is limited by total investment amount and the client's repayment ability.

Credit may be drawn in a lump-sum or gradual way for the period of 2 year from signing the contract. Thus it is drawn in a special or advance way to the client's current account.

Mortgage time of maturity is from 5 to 30 years, here is determined the fixed interest rate from 3 years to 10 years and 15 years from signing the contract.

b) Mortgage loan 2 in 1

This mortgage is intended for clients, applying for a mortgage incl. non-special credit part. Thus it can be used for everything, for investment without determined purpose. Minimum credit amount is 250 000 CZK, and the special part is minimally 200 000 CZK and non-special part is 50 000 CZK. Maximum amount of special part is limited to 85 % or 100 % of the pledged real estate price. This price is again determined by the bank. Further the maximum amount is limited by the investment volume in the real estate and client's repayment ability. Non-special part of the credit may be max. 20 % of the total credit amount and maximally to 400 000.- CZK.

Mortgage loan 2 in 1 may be drawn in a lump-sum or gradual way for the period of 2 year from signing the contract. At the latest the drawing may be started 9 months from signing the contract. Non-special part of the credit may be started to draw, only after drawing minimally 50 % of the special part.

This mortgage has also a determined fixed interest rate and maturity time is 5 – 30 years.

c) Mortgage loan Dopředu Dozadu(Forward Backward) [39]

Mortgage loan Dopředu Dozadu represents a combination of two attractive advantages.

The mortgage Dopředu (Forward) is the accommodation credit, bringing certainty and peace in searching the real estate or in planning the reconstruction or modernizing. This credit is approved by KB to the client earlier than he chooses a concrete real estate. Client is guaranteed with the negotiated terms up to 6 months.

Mortgage loan Dozadu (Backwards) enables a back refund of the already incurred cost of housing. Credit terms are standard and the client may use acquired funds for everything.

Credit maturity period is 6 months, however, the client may extend maturity to 9 months.

4.3 Hypoteční banka

Name	Hypoteční banka, a. s.
Registered office	Radlická 333/150, 150 57 Prague
Registration in CR	10. 1. 1991
Registered capital	5 076 330 000.- CZK
Bank code	2100

Hypoteční banka specializes particularly in granting the mortgage loans in CR. The bank approaches to its clients individually and offers them credits according to their needs. Since 1995 Hypoteční banka has the authorization to issue the mortgage bonds. For a long time it has been in first positions in granting the credits to citizens of the Czech Republic.

4.3.1 Mortgage loans with HB

Hypoteční banka ranks among the biggest domestic providers of mortgage loans. In 2011 the average mortgage loan amount was ca. 1.6 mil. CZK. HB mortgage loan has to be repaid till 70 years of the applicant's age at the latest. Client does not need to have an opened current account with Hypoteční banka.

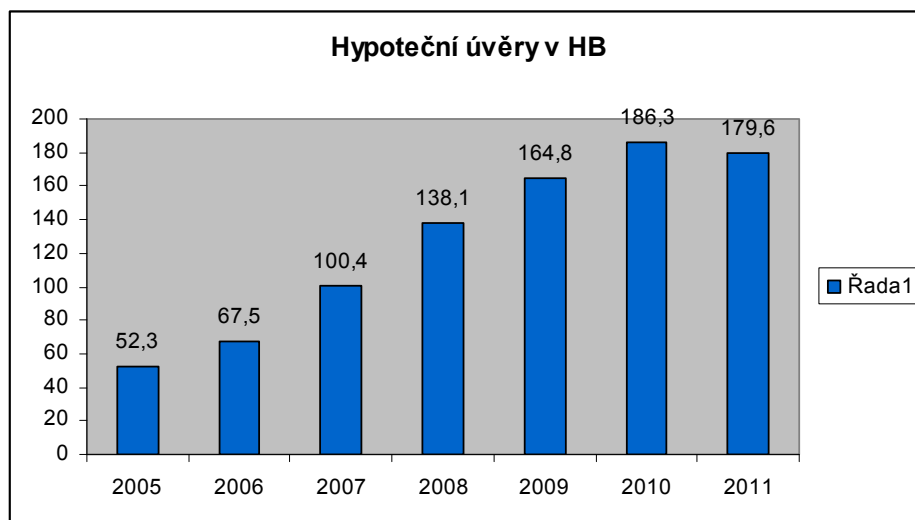


Chart No. 10: Mortgage loans with HB
Source: [18]

Client may choose a mortgage loan with Hypoteční banka according to the purpose.

- a) HB offers the mortgage loan up to 70, 85 and 100 % of the real estate appraisal value.**

Here is stipulated a fixed interest rate for 1, 3, 5, 10, 15, 20, 25 or 30 years. Credit due date is 5 – 30 years. HB also enables to its clients to take so called Mortgage 2 in 1.

b) Mortgage loan on a cooperative flat

This credit is intended especially for purchase of a cooperative flat. It is granted up to 100 % of the real estate appraisal value. Here is stipulated a fixed interest rate for one, three or five years. Mortgage maturity time is 5 to 30 years.

c) Pre-mortgage loan

This credit is intended for financing a cooperative flat, which should be transferred to the private ownership till 1 year after the credit approval.

For the whole life of this mortgage loan it is not necessary any collateral. Maximum credit amount is 5 mil. CZK. Here is stipulated a fixed interest rate for 1 year and maturity time is 1 year, too.

4.4 GE Money Bank

Name	GE Money Bank, a. s.
Registered office	Vyskočilova 1422/1a, 140 28 Prague
Registration in CR	9. 6. 1998
Registered capital	508 000 000.- CZK
Bank code	0600

GE Money Bank ranks among the universal banks. It has an extensive network of branches and cash machines all over the CR. It orientates especially to citizens and small and medium enterprises. It is a part of one of the strongest companies all over the world.

GE Money Bank provides its clients with personal loans, commercial credits, payment cards, mortgage loans, deposits, consolidation of credits, insurance, leasing, etc.

4.4.1 Mortgage loans with GE Money Bank

In 2011 GE Money Bank granted almost 1 360 mortgage loans. Average mortgage loan amount was 1 million CZK.

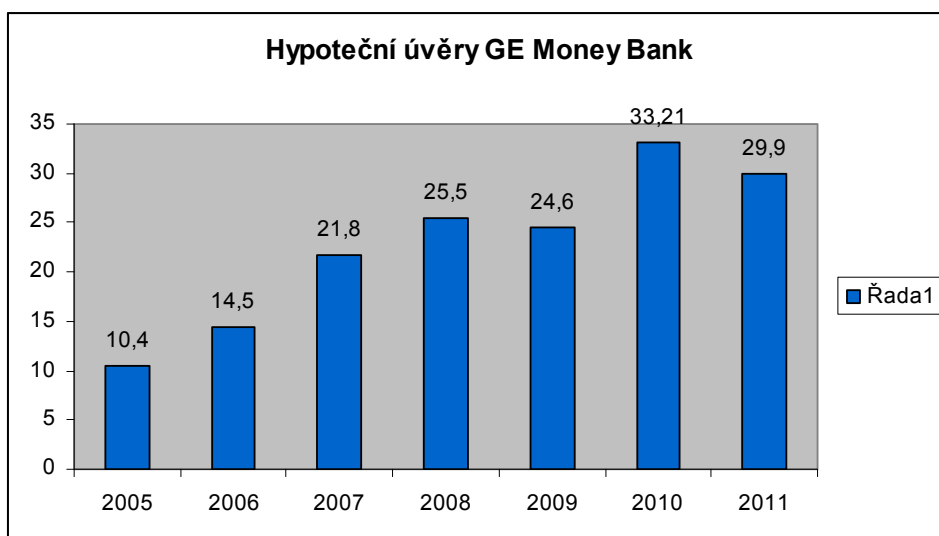


Chart No. 11: Mortgage loans with GE Money Bank
Source: [17]

GE Money Bank offers these mortgage loans:

a) Mortgage loan [17]

This mortgage loan is intended for financing the real estate, serving for accommodation. Here is possible to use so called variable mortgage loan. Interest rate is composed of the fixed and variable parts of the interest rate. Variable parts are changed 1 (once) a month. Fixed part of the interest rate is valid for the whole life of the credit or it can be fixed for 1, 3 or 5 years. Monthly amounts of the variable component are derived from the actual situation on monetary market.

Mortgage loan is secured by pledge to the financed or another real estate in the territory of CR. Mortgage loan amount reflects from the real estate market value, which is determined by a hired surveyor and the client's reliability and solvency. Minimum loan amount is 300 000.- CZK and max. 80 % of the real estate market price.

Mortgage loan may be drawn in a lump-sum or gradual way according to the credit purpose and may be started from 12 months and completed till 24 months from signing the credit contract.

Mortgage loan maturity is from 5 to 30 years. Client must not be older than 70 years after expiration of the credit maturity.

b) Re-financing the mortgage loans

Re-financing the mortgage loan removes the biggest obstacles discouraging the client from changing the bank. Here client does not pay a fee for credit creation, he must not order and pay a new valuation of the real property, if he is repaying his existing mortgage loan already for 11 months, he must not present a statement of earnings. Interest rate remains the same.

c) Consolidation of loans to the mortgage loan

With this loan the client may repay his unsecured loans, overdraft accounts or credit cards and lower his monthly expenses for instalments.

GE Money Bank lends the client from 200 000.- CZK to 900 000.- CZK, max. 80 % of the real estate market value for the period from 5 to 30 years. Credit is approved in 5 working days from handing over of all the ground materials to the bank.

GE Money Bank also grants American mortgage loan or Complementary credit.

4.5 Raiffeisenbank

Name	Raiffeisenbank a. s.
Registered office	Hvězdova 1716/2b, 140 78 Prague
Registration in CR	25. 6. 1993
Registered capital	6 570 000 000.- CZK
Bank code	5500

Raiffeisenbank a. s. grants its clients a lot of various banking services for private persons, but also for businessmen. The bank has several branches all over the CR.

For several following years the bank won the title “ The Most Dynamic Bank of the Year” in the domestic prestigious survey of MasterCard Bank. Raiffeisenbank won also the first place in the survey Zlatá koruna (Golden Crown).

Mortgage loans with Raiffeisenbank

In 2011 the bank suffered from the mortgage loans sump. Average credit amount was approximately 1. 6 mil. CZK.

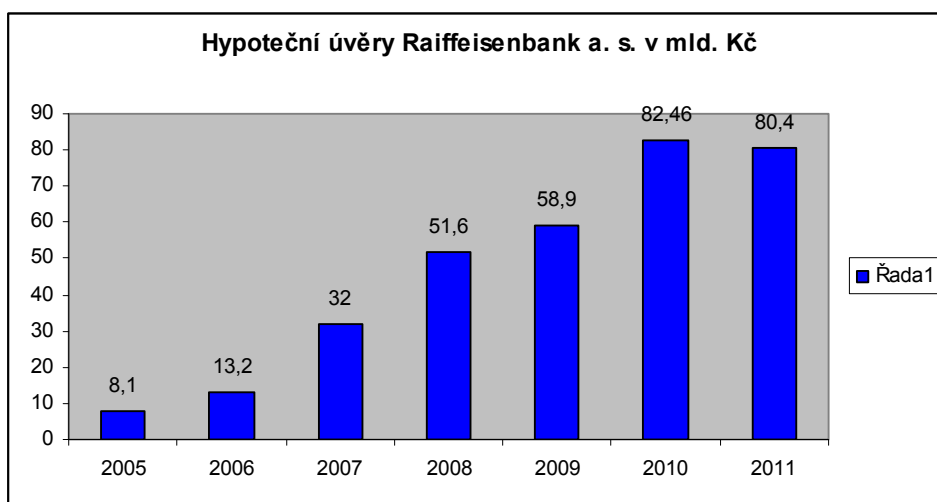


Chart No. 12: Mortgage loans with Raiffeisenbank a. s. in billion CZK
Source: [24]

Raiffeisenbank grants mortgage loans, having several advantages. Client must not pay the entrance fee or extraordinary instalments. Bank also provides the mortgage loans without the income certificate and offers to the loan a beneficial insurance Raiffeisen Triga Plus.

Raiffeisenbank offers several types of mortgage loans:

a) Klasik mortgage loan

This mortgage loan is intended for investment in real estate and cooperative flats. Bank grants the mortgage loan up to 90 % of mortgage real estate value. Client may use up to 20 % of the credit amount for everything and he must not prove the purpose of spending these financial funds. Credit maturity is 5 to 30 years.

In case of the real estate construction the mortgage loan may be secured by this unfinished real estate. If the client applies money for everything, the real estate, securing the credit, has to be completed and approved.

Mortgage loan may be drawn in a lump-sum or gradual way. The bank's client determines the drawing amount by himself.

There is binding only the date, till the client has to drawn the credit.

Mortgage loan is repaid in so called annuity way.

b) Klasik Plus

Klasik Plus mortgage loan is intended for financing such plans, when it is not possible to use the acquired real estate for securing the mortgage loan.

Klasik Plus is formed by two credits. At first the bank grants the client with unsecured credit for a period of 24 months, which is repaid by a mortgage loan after creation of right of lien in the real estate.

Credit may be drawn in a lump-sum or gradual way and is repaid in so called annuity way.

c) Profit mortgage loan

This mortgage loan specializes in commercial real estate, intended for rent.

Terms of collateral and repayment are the same as with preceding mortgage loans with Raiffeisenbank.

Bank grants mortgage loan up to 70 % of mortgage real estate value. Here is stipulated a fixed interest rate for 1 – 7 years, 10 or 15 years. Credit maturity period is 5 – 20 years.

d) Offset

Offset is the mortgage loan for those, who need a mortgage loan, but also want to have deposited the cash for unforeseen expenses. Thanks to offset of savings the Offset helps to decrease the interest cost of the mortgage loan and the monthly instalment amount.

Bank grants this mortgage loan up to 90 % of mortgage real estate value and the credit may be used for everything up to 20 %.

Credit maturity is 5 – 30 years. Offset inclusion is carried out up to the amount of 100 % of the unpaid mortgage loan principal.

Here are applied the interest rates fixed for 1 – 3 years.

Minimax mortgage loan

Minimax mortgage loan is intended for re-financing the consumer credits and loans. However, since July 2010 Raiffeisenbank stopped granting it.

Raiffeisenbank also grants mortgage loans: Mortgage loan for the program “Zelená k úsporám”, Equi mortgage loan without presenting the income, Variable mortgage loan, American mortgage loan Univerzál.

4.6 Comparison of banks

Mortgage loans of the respective banks were compared in the following situation:

Client wants to buy a flat into individual ownership, the flat purchase price is ca. 1 500 000.- CZK. The applicant is 30 years old, single, childless and saved 400 000.- CZK. The money is used by him for a part of the purchase price. So client applies for a credit in the amount of 1 100 000.- CZK, he is in a hurry to get the credit, therefore he wants to use the express drawing.

The client's net income is 20 000.- CZK, he regularly repays only the supplementary pension insurance. Credit due date prefers the 20 years and fixation time 5 years. Client is also willing to open his own personal account with the respective bank, if it offers him an interest rate discount. He also requires the repayment ability insurance – death or total disablement.

Mortgage loan purpose	Purchase of real estate
Type of real estate	Flat in personal ownership
Real estate purchase price	1 500 000.- CZK
Own sources	400 000.- CZK
Mortgage loan amount	1 100 000.- CZK
Credit due date	20 years
Interest rate fixation time	5 years

Table No. 4: Parameters of the required mortgage loan
Source: own processing

Bank	Česká spořitelna	Komerční banka	Hypoteční banka	GE Money Bank	Raiffeisenbank
Mortgage loan	Mortgage for accommodation	Mortgage up to 85 %	Klasik mortgage	Variable mortgage	Klasik mortgage
Interest rate	3. 79 %	4. 19 %	4. 59 %	3. 29 %	5. 59 %
Monthly instalment	6 545.-	6 776.-	7 013.-	6 262.-	7 623.-
Repayment ability insurance	244.-	275.-	315.-	312.-	381.-
Fee for keeping the credit account	150.-	150.-	150.-	150.-	150.-
Total monthly instalment	6 939.-	7 201.-	7 478.-	6 724.-	8 154.-
Instalment for the whole period	1 665 360.-	1 728 240.-	1 794 720.-	1 613 760.-	1 956 960.-

Table No. 5: Comparison of mortgage loans with the respective banks

Source: [34]

From the mentioned table it is obvious that the most beneficial mortgage loan is granted by the Variable mortgage loan with GE Money Bank. In case of this bank the total monthly instalments are 6 724.- CZK. The most expensive mortgage loan is granted by Raiffeisenbank. With this bank the total monthly instalments were 8 154.- CZK.

Apart from the interest rate the client has to find out the fee amount. There is a lot of fees and the client often is not aware of them.

5 ANALYSIS OF BANKS IN CR IN TERMS OF CONSUMER CREDITS

Consumer credits are suitable for the people, not having in disposal the cash in hand for purchase of e.g. furniture, electronics. Terms for granting the consumer credit are very different with respective companies. As a general rule it is a necessity to be the CR citizen or a foreigner with permanent residence in CR and the income enabling to repay the credit.

Under the law the consumer credit is:

- a loan granted without interest or any remuneration,
- a consumer credit granted for running provision of services,
- a consumer credit lower than 5 000.- CZK and higher than 800 000.- CZK,
- a consumer credit for purchase, construction, repair or maintenance of a real estate,
- a consumer credit based on the contract on lease.

In 2011 the demand for consumer credits decreased. Unemployment is still high, despite of that it is expected that this year the interest in consumer credits will increase. Situation on the market can be improved not only by helpful approach of banks, but also by a new Act on consumer credits, which has been in force since January 2011. This Act helps to fight against dishonest credit providers. According to the data, published by GE Money Bank the consumer loans volume stagnated last year. Volumes of newly negotiated credits even decreased up to several tens of percentage.

From the data, published by the Bank Register, in 2009 the consumer credit volume, granted by the banks to the clients, reached the amount of 11.38 billion CZK. Last year it was 11.16 billion CZK.

5.1 GE Money Bank

In 2011 GE Money Bank increased its share in the total volume of granted consumer credits in the Czech Republic by 1.2 % to actual 29 %. Last year the consumer credit market rather stagnated, however, the consumer credit portfolio of GE Money Bank grew

by 3 %. Bank negotiated almost 155 000 Express loans and still has held the position of the second biggest provider of consumer credits in CR.

This year it is expected that together with a slight economic revitalization there will increase the interest in consumer credits by 5 to 10 %. GE Money Bank expects that the market will grow thanks to increasing demand for credits and its role will be played also by more active offer from the side of the banks.

According to the research, undertaken by GE Money Bank, it was proved that almost three quarters of the Czech Republic's inhabitants have experience in use of a loan. 85 % of them, who borrowed money, utilized the services of banks. In 2010 the average amount of Express loan with GE Money Bank reached the sum of 114 000.- CZK.

Surprising fact-finding was the fact that the actual expectation of the country's economic development for 2011 does not influence the willingness to borrow with two thirds of the Czech Republic's inhabitants. People would like to borrow most often for reconstruction of a house or a flat or the purchase of a car. [17]

Within the consumer loans the clients of GE Money Bank prefer the maximum flexible credit. Therefore with the actual promotion offer the bank decided to provide to the interested persons in the loan a possibility of selecting the benefit according to their own discretion. This offer is valid for application for credit till 31st May 2011.

Client chooses between these benefits:

- Relief from the fee for granting and premature repayment of the loan
- Payment of one instalment by the bank
- Deferment of instalments up to 3 months.

Express loan may be obtained in the amount from 30 to 600 000.- CZK. GE Money Bank does not require any credit collateral. The bank decides on granting while you wait, till 5 minutes from signing the contract the client has the money in his account. Clients may choose the loan due date as standard according to their requirements in duration from 24 to 96 months.

5.2 Česká spořitelna

Consumer credit with ČS is intended for a private clientele of the age over 18 years. Client has to be the CR citizen with a permanent residence in the Czech Republic's territory. A foreigner must have a permanent residence permit in the territory of CR.

Minimum credit amount is 100 000.- CZK and maximum limit is not determined. Special credit is granted as cashless for private purposes, for example:

- purchase of consumption articles, including cars,
- purchase of real estate,
- payment of services,
- reimbursement of cost related to modernization of a flat or a house,
- reimbursement of other cost of private consumption,
- etc.

Advantage of the consumer credit with ČS is the fixed interest rate for the whole period of credit due date, a possibility of a gradual drawing the credit. It is possible to obtain a credit up to the amount 500 000.- CZK without collateral. Client will be given a credit account statement free of charge.

Condition of opening the credit is proving the ability to repay the credit from own sources and in agreed term and also to document the purpose of the credit.

Client also has to document his wage-earning and enterprise revenues and the ones from self-employment.

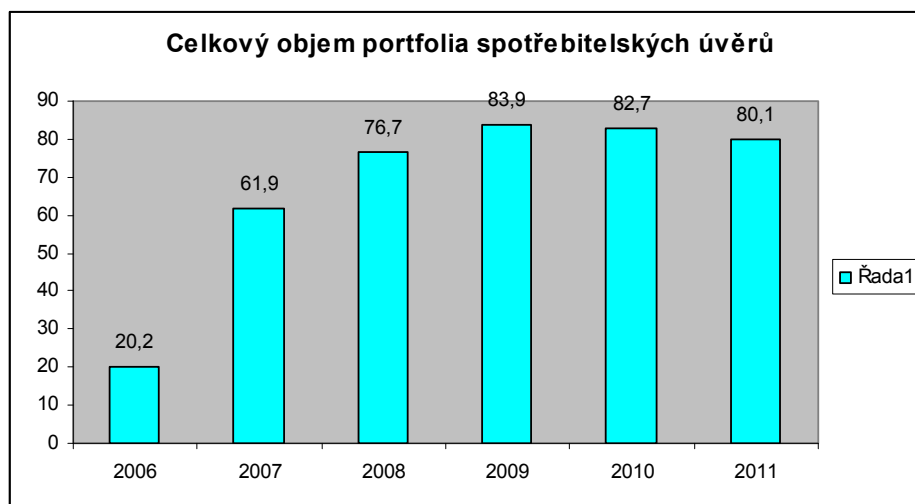


Chart No. 13: Total volume of consumer credits portfolio
Source: [26]

5.3 ČSOB

ČSOB grants its clients so called Loan for everything. The loan is intended e.g., for purchase of a new car, electronics or household equipment, is offered with advantageous interest rate with limit up to 600 000.- CZK and the client may borrow for everything.

Advantage of this loan is beneficial interest rate from 9.9 % p.a., client determines the instalment amount by himself and he may break instalments apart for up to 7 years. Client need not document to the bank the purpose of the loan. He may treat with money at his discretion already on the day of signing the contract. Client may borrow the amount up to 600 000.- CZK without a guarantor.

Minimum loan amount is 20 000.- CZK, client may repay the loan prematurely at any time. Due date is from 1 to 7 years. Drawing is a lump-sum type, it is possible to drawn via transfer to the client's account immediately after approving the application. Client has also a possibility to insure the loan also against unemployment and disability.

However the condition of the Loan for everything is ČSOB Konto or ČSOB Aktivní konto. In making application client has to present his income and two identity certificates. [26]

	2010 (mil. Kč)	2009 (mil. Kč)	Meziroční změna (%)
Úvěrové portfolio – retail (spotřebitelské financování a hypotéky)	163 085	153 027	+6,6
Úvěrové portfolio – SME	62 936	66 925	-6,0
Úvěrové portfolio – úvěry ze stavebního spoření (55 %)	71 946	65 802	+9,3
Úvěrové portfolio – leasing retail a SME	23 325	29 195	-20,1
Stavební spoření (55 %)	86 139	82 607	+4,3

Table No. 6: Credit portfolio key data
Source: [16]

5.4 UniCredit Bank

UniCredit Bank offers so called Splatkomat its clients, who want to re-finance their existing obligations and to reimburse their instalments on time.

Good payers are not asked by the bank for the income certificate, only identification documents will be suitable for the client. Advantage is the processing the new loan already at the first visit of the branch.

By means of PRESTO Půjčka all the clients are able to repay properly their consumer credit, bank overdraft or credit card loan.

Client need not document the loan purpose, in total he can borrow up to 500 000.- CZK. Up to the amount of 250 000.- CZK the client need not have a co-applicant. Loan may be repaid prematurely without fees and it is possible to repay it up to 84 months.

Maturity (years)	1	3	5	7
Loan (CZK)	Instalment amount (CZK)			
50 000	4 558	1 780	1 240	1 019
70 000	6 381	2 492	1 736	1 426
100 000	8 927	3 365	2 270	1 814
150 000	13 391	5 047	3 405	2 721
200 000	17 854	6 729	4 540	3 628
300 000	26 781	10 094	6 811	5 441

Table No. 7: Instalment amount of Půjčka na cokoliv (Loan for everything)
Source: [31]

In the below-mentioned table there is calculated, what amount is overpaid by the client, if he has one of the mentioned consumer credits. And just according to the overpaid amount these consumer credits are compared in this table dependent on 3 year maturity time.

3 year maturity time

	ČSOB Rychlopůjčka	GE MONEY BANK mPůjčka Plus	Unicredit Bank PRESTO půjčka
Borrowed amount	100 000,-	100 000,-	100 000,-
Annual interest	13,49%	14,90%	10,40%
Monthly instalment	3 427,-	3 462,-	3 428,-
RPSN	15,15%	17,20%	14,97%
Total payment	123 372,-	126 132,-	123 992,-

Table No. 8: Comparison of consumer credits for maturity time of 3 years
Source: [11, p. 72]

On the banking market there is a lot of offered consumer credits, every bank has a different name for its product, but at the same time it refers to the same kind of credit. Interest rates of the respective offered credits differ and every customer should take into account the fees, related to granting the credit.

In the mentioned-above table we can see a comparison of respective offered products of banks. At the first sight it is obvious that of the mentioned products the most favourable is Rychlopůjčka with ČSOB, where the client overpays the least and actually it is 23 372.- CZK, but Půjčka Plus with GE Money Bank is the least favourable, here the client overpays 26 132.- CZK. Differences in overpaying the credits with respective banks do not differ much, it is in thousands of CZK, although such a small amount is, of course, important in making decision.

6 BANK SELECTION STRATEGY

In selecting the bank, suitable for the mortgage drawing is also important to know, how much money will be lent by the bank. It depends how big part of the real estate value the bank is willing to finance and what is its minimum credit limit.

100% mortgage loan, for which it is suitable to pledge only the acquired flat or house, is offered by Hypoteční banka at present time. You can borrow money for a real estate also with other companies, but with them you must guarantee with more real estates, so as the coverage would exceed the credit amount. But such mortgage is also very demanding for the applicant's income. The amount, which must remain after deducting all the necessary expenses, should be about as double as a common mortgage loan.

One of significant criteria in the bank selection is the quality of provided services. Very important is a personal approach to the client, thus the bank finds better the right and optimum solution, suitable for the client in question.

The bank's experience is important, too. If the bank has already worked on the mortgage loan market for a longer period and if it is well established. With such a bank we can expect that it has already the experienced and qualified personnel that will provide the client with a proper solution of his flat intention.

With the mortgage an important role is also played by the due date. Most banks have determined the due date for five up to thirty years. Some banks have a restricted limit for twenty years, the other have it extended, for example, for 40 years. If the client have agreed five year interest fixation, he may repay more money at the same time in the change period without paying a penalty for it to the bank.

Client's reliability and solvency, ability to repay, is very important for the bank. According to it the bank will decide whether to grant the client a credit and for what interest rate.

In general it applies that after deducting all necessary cost, 1.3 multiple of subsistence minimum must remain minimally for the applicant. In case of 100 % mortgage the minimum amount is at least doubled.

In bank selection a big role is played by client's creditworthiness calculation. Every bank differs from the others in the fact what it considers to be creditable income. Common example is that the truck drivers have usually their wage from per diem allowance and not

every bank takes these allowances into account. Such banks are very few. For example, with credit from saving for building purposes they accept per diem allowance in full amount. Therefore for such a client a chance to get a credit is increased.

Banks differ in the application processing time. Some banks grant a credit to client immediately, here it refers to so called express loan, others in five days and with some of them a client waits for the loan processing even a couple of weeks.

Client can use financial consultancy, where he can utilize financial advisers, who has experience in selecting the proper product according to the client's requirements and they can jointly choose the most suitable banking product.

Banks monitor one another, particularly in the sphere of the interest rate offers. This leads to the interest rate harmonization to a similar level. Interest rate amount is very important for the client, but at present time there is not a significant difference between the banks.

Bank selection depends on the fixation possibilities, too. With mortgage loans the fixation is mostly longer than 3 years. After fixation time it is possible to pass to another bank. During past period the banks' offer can change and another bank will be better for the client.

With saving for building purposes there is not fixation, but it is a possibility to pass to another bank or saving company, too. Advantage consists in the fact that the client is not bound with fixation.

Important role is also played by drawing method and documenting the mortgage loan or credit. Every bank has set conditions for drawing and documenting the credit. Banks have set percentages, which must be observed and in drawing higher amounts the documenting is more complicated and longer. The higher drawing percentage of the credit is, the better is the situation. Credit will be drawn faster.

Documenting method of such drawing is also various. Some banks require the attested copies of invoices and documents of payment and photos of performance of the real estate on the basis of the surveyor of the real estate, for which the credit was processed. Other banks require personal supervision. Every client prefers something different. It depends on requirements and possibilities of the client.

It is necessary to evaluate all the preceding information and to think them over well. Not everything, what seems favourably at the first sight, is profitable in real life.

CONCLUSION

The principal aim of this Bachelor Thesis was to analyze some of the selected banks in the Czech Republic in terms of conditions for taking a loan out. In the theoretical part there was described in brief the history of banking and characterized the banking products.

From comparison of the mortgage loan offers of the respective banks it is obvious that the lowest interest rate does not mean that the credit is the most beneficial. The instalment amount is also significantly influenced by the fees, charged by the bank. It is important to take into account also the purpose of the credit use and the interest rate amount. As a significant factor there is also a right selection of the fixation time, however it will be proved only after expiration of a certain period according to the interest rate development.

With most of banks the interest rate for new clients is rather lower for the first fixation period, so it may happen that later the client may be very negatively surprised.

In our model case it is evident that, for example, payment ability insurance fees significantly differ with respective banks. Even in the case of use of the most beneficial mortgage with GE Money Bank the total amount of paid up credit exceeds the borrowed part of the credit by minimally 500 000.- CZK.

The offer with Raiffeisenbank is the least beneficial for our client. The interest rate is the highest of all the banks. The bank has also the highest payment ability insurance fees. Total monthly instalment with Raiffeisenbank would be 8 154.- CZK, which is more than in the case of the mortgage with GE Money Bank by 1 430.- CZK.

I would recommend to all interested persons in a mortgage to study carefully all the fees, related to the mortgage and to find out with the bank all possible information on granting the credit. As the client would not be overtaken in drawing and dealing with the credit.

However the interested persons in a mortgage must take into account considerably their present and future financial situation, if it will be a quality for the bank. If during the mortgage repayment the client runs into financial troubles and will not be able to repay the mortgage, the bank may offer him a deferral of instalments for several months. However, the client has to cooperate with the bank and inform it about his financial situation.

Ideal mortgage is such a loan, fully corresponding to the applicant's needs and wishes. So the client should consider carefully his income, future plans and priorities to find out, which bank will provide him with such credit conditions, meeting all his requirements. Client may save even tens of thousands Czech crowns with a correctly selected credit.

On the Czech market there is a hard competition of banks. Mortgage is planned for several tens of years and therefore every applicant for a credit should select the most suitable bank for him. Client must not decide under constraint, he should consider with a cool head all positives and negatives of the offers with the respective banks. As a decisive criterion for the applicant there will be surely the bank's approach to the client and also experience of his friends or well known people in this bank.

At present times on the Czech Republic's market all the banks literally fight for every client. For this reason they are willing to discuss better conditions for granting the credit with the client so as they would be more advantageous for the client than their competitors and win a profitable business for them. Mortgage loan offer is very varied and in thorough studying the mortgage market every client has a chance to find the most beneficial credit.

In conclusion of this bachelor thesis I can only add to the banking development in CR that financial crisis, which bore down on the Czech Republic in past years, hit heavily the banking sector and we can only expect a better development in following years with increasing economy of this country. This development will surely be influenced by living standard of inhabitants of CR, which is not developing well.

All the aims of the bachelor thesis have been met. In conclusion I would like to say that today the banking is the integral part of financial market, whose beginnings we can see already in Eastern Babylon in 1st century BC.

Although money is not everything, at present times it is not possible to live without it. Banking should help to orientate in the sphere of finance both for common people and small or big enterprises. Banks are here especially to help the clients to reevaluate, deposit their money and vice versa, if the client has a shortage of financial funds, to be able to grant him such a credit, so as the client would be satisfied and be able to repay it. If the banks behave in such a way it is a question, although all of them state that they especially work for the benefit of the client. However, some banking fees lead to assumption that the banks work rather for their own profit.

Banking is a branch, which is still developing. Till money exists, banks will be a necessary part of financial market.

This Bachelor Thesis makes the reader acquainted with banking as such, but in addition it compares the respective banking products of selected banks. It can serve as an aid and at the same time it can provide some important information for a small saver in selecting the banking services. As due to CNB monetary policy, price development and other factors the data used in this work are permanently changed, it is recommended to update the respective needed information after a longer period.



Evropský polytechnický institut, s.r.o.
Osvobození 699, 686 04 Kunovice
<http://www.edukomplex.cz>, epi@edukomplex.cz

Hodnocení bakalářské práce ústavem Ekonomika a řízení

Název bakalářské práce: Analýza vybraných bank v ČR z hlediska podmínek pro získání úvěru

Jméno a příjmení autora práce: Jarmila Novotná

Studijní obor: Finance a daně

	Kritéria hodnocení	A	B	C	D	E	F
1.	Náročnost práce			X			
2.	Splnění cílů práce		X				
3.	Teoretická část práce			X			
4.	Praktická část práce			X			
5.	Formální úprava práce		X				

Hodnocení v jednotlivých kritériích označte X

Abecední hodnotící stupnice

Číselné hodnocení	Abecední hodnocení	Slovní hodnocení	Anglický ekvivalent hodnocení	Procentuální rozpětí
1	A	excelentní	upper - excellent	90 – 100 %
2	B	výborný	lower - excellent	80 – 89 %
2	C	velmi dobrý	very good	70 – 79 %
3	D	dobrý	good	60 – 69 %
3	E	dostatečný	sufficient	50 – 59 %
4	F	nevyhovující	fail	pod 50 %

Práci doporučuji – ~~nedoporučuji~~* k obhajobě. (*nehodící se škrtně)

Bakalářskou práci navrhuji klasifikovat stupněm: C

Hodnocení vypracoval: Ing. Ondřej Šabata

V Kunovicích dne: 29. 2. 2012


.....
podpis hodnotitele bakalářské práce

ABSTRAKT

Jarmila NOVOTNÁ *Analýza vybraných bank v ČR z hlediska podmínek pro získání úvěru.*
Bakalářská práce. Evropský polytechnický institut, s.r.o. Kunovice 2012

Vedoucí práce: Ing. Martin Smutek

Klíčová slova: bonita, čerpání, fixace úrokové sazby, hypoteční úvěr, spotřební úvěr, pojištění, poplatky.

Bakalářská práce je zaměřena na problematiku hypotečních úvěrů. Hlavním cílem této práce je provést analýzu hypotečních bank vybraných peněžních ústavů a na základě zjištěných výsledků srovnat jednotlivé banky v rámci hypotečních a spotřebních úvěrů.

Teoretická část popisuje základní pojmy, které se týkají hypotečních úvěrů.

Praktická část je zaměřena na poskytování hypotečních a spotřebních úvěrů jednotlivých bank. V závěru práce je uveden konkrétní příklad a provedeno srovnání bank v rámci poskytování hypotečních úvěrů.

ABSTRACT

Jarmila NOVOTNÁ Analysis of selected banks in the Czech Republic and the conditions for obtaining credit. Bachelor Thesis. European Polytechnic Institute Ltd., Kunovice 2012

Supervisor: Ing. Martin Smutek

Key words: financial standing, drawing, mortgage loan, interest rate fixation, consumer credit, instance, fees

This Bachelor Thesis is aimed at the problems of mortgage loans. The main aim of this study is to analyze the mortgage banks and financial institutions selected on the basis of the results obtained to compare the different banks in the mortgage and consumer loans.

The theoretical part describes the basic concepts related to mortgage loans.

The practical part is focused on the providing of mortgages and consumer loans of individual banks. In the conclusion there is shown some concrete examples and there is a comparison between the banks in providing mortgage loans.

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LIST OF ABBREVIATIONS

CR – Czech Republic

CNB – Czech National Bank

ČS – Česká spořitelna

KB – Komerční banka

HP – Hypoteční banka

GE MB – GE Money Bank

EU – European Union

So called – So called

i.e. – That is

CB – Central bank

No. – Number

A.s. – Akciová společnost (Joint stock company)

Century – Century

i.e. – It means

CP – Cenný papír (securities)

e.g. – For example

PČS – Pojišťovna České spořitelny

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